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Approved For Release 2007/03/14 : CIA-RDP79T00975A028600010036-5

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National Intelligence Bulletin

February 23, 1976

CONTENTS

TURKEY-GREECE: Turks schedule air and naval exercise	1
CYPRUS: Latest round of Vienna talks accomplishes little	2
USSR - MIDDLE EAST: Soviet official discusses Geneva conference	3
CHILE-PERU: Chilean concern over military moves near border	5
YUGOSLAVIA-USSR: Treatment of Soviet party congress	6
PORTUGAL: Economic situation	7



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National Intelligence Bulletin

February 23, 1976

TURKEY-GREECE

Turkey has scheduled an air and naval exercise for Wednesday and Thursday near the Greek island of Lesbos, raising the possibility of an incident in the Aegean this week.

25X1

The Greeks claim a ten-mile air space; the Turks recognize only a six-mile limit and have indicated to Athens that the exercise area would come to within eight miles of the western coast of Lesbos. Greek-Turkish negotiations on air space rights and other matters under dispute in the Aegean ended recently without progress, and this may heighten the possibility of a confrontation.

Last May, the Turks conducted a similar exercise without incident, although the Greeks were prepared to intercept Turkish planes with anti-aircraft guns and aircraft. Greek pilots at that time were under orders not to open fire without the approval of the defense minister.

25X1

National Intelligence Bulletin

February 23, 1976

CYPRUS

The latest round of Cypriot intercommunal talks, which ended in Vienna on Saturday, again failed to produce a breakthrough on major issues, but the atmosphere was reasonably positive.

The negotiators for the two sides had been committed to an exchange of views on all issues at stake—including the territorial question, which the Turkish Cypriots had refused to consider in earlier rounds. These issues were discussed, but the five-day meeting produced few results.

Secretary General Waldheim did succeed in securing agreement on a compromise formula for future negotiations. This formula commits both parties to exchange written proposals on pending issues in Nicosia within the next six weeks. The negotiators will meet with Waldheim in Vienna in May to establish agreements in principle on the various issues, following which the points will be referred to mixed committees in Cyprus to iron out details.

Earlier attempts to shift the focus of negotiations to Cyprus have ended in failure, however, and the prospects for progress in the period before the next round in Vienna are poor. Mutual suspicions, the reluctance of either side to be the first to make concessions on issues of interest to the other, and domestic political considerations, particularly on the Turkish side, will probably prevent the presentation of reasonable proposals that could form the basis for successful negotiations.

25X1

National Intelligence Bulletin

February 23, 1976

USSR - MIDDLE EAST

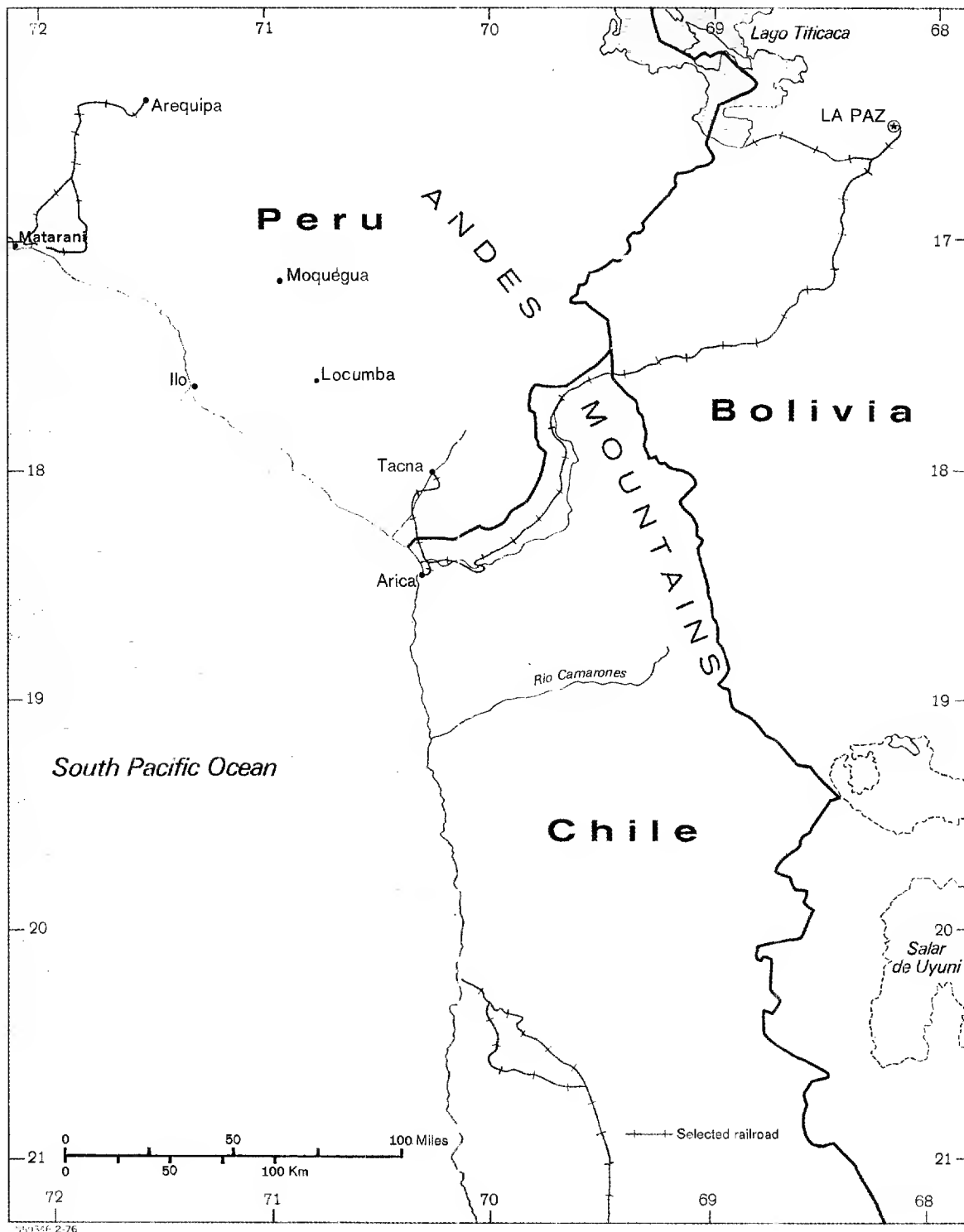
The chief of the Foreign Ministry's Near East department, M. D. Sytenko, told Ambassador Stoessel in Moscow on Friday that a Geneva conference on the Middle East should be resumed "without preconditions." His assertion suggests that Moscow is groping again for a formula for representation at such a meeting.

Sytenko said that the question of mutual recognition by Israel and the Palestine Liberation Organization should be postponed and that all parties should meet in Geneva without reference to any UN or other resolutions. Sytenko said he thought that the PLO would go to Geneva under such circumstances. He also criticized Israel for insisting on too many preconditions to negotiations but professed a belief that Tel Aviv's demand for PLO recognition of Israel's right to exist could be overcome.

Sytenko refused to be drawn out on the reason why Foreign Minister Gromyko's recent letter to UN Secretary General Waldheim failed to refer to PLO attendance at the Geneva conference from its inception. Sytenko also would not elaborate on what Gromyko had in mind when he mentioned preparations for such a conference.

Sytenko was vague about possible informal negotiations before any resumption of the Middle East peace conference, and avoided mention of any bilateral talks with the US. The Soviets will soon have an opportunity to consult with the PLO on Geneva conference matters. The Palestinians have announced that they will send a delegation to the Soviet party congress--the first time they have done so--and there are rumors in Moscow that it will be led by Palestinian "foreign minister" Qaddumi.





National Intelligence Bulletin

February 23, 1976

CHILE-PERU

The Chilean military are anxious over recent reports of Peruvian troop and ship movements near Chile's border. Last week's adoption of the Kennedy amendment by the US Senate has apparently added to their concern, since it probably would prevent the long-anticipated delivery of F-5E aircraft to Chile and would help preserve the military advantage of the Peruvian armed forces.

Activity in the border area reportedly includes a southward movement of three Arequipa-based army battalions; two infantry battalions are moving to the Tacna-Moquegua area, and one armored battalion is moving to the port area of Ilo. In a possibly related event, the US embassy in Lima reported on Friday the unloading of Soviet equipment—perhaps including tanks—at the ports of Ilo and Matarani.

Chilean concern over the significant military movements stems mainly from Peru's noncompliance with an unwritten agreement between the two countries to give prior notification of any military activity in the sensitive border region.

The present activity is probably related to the activation of a new base in the southern region near Locumba; past reporting had indicated that the units to occupy the base would most likely come from Moquegua and Ilo. The reported Soviet tanks may go to the Sixth Division in Tacna which is also expected to occupy the base.

Tensions between Peru and Chile have diminished substantially since President Morales Bermudez took office last August. Nevertheless, troop movements in southern Peru will likely continue to cause concern because of Chile's weaker military posture.

25X1

National Intelligence Bulletin

February 23, 1976

YUGOSLAVIA-USSR

Belgrade's handling of the Soviet party congress suggests that President Tito is going out of his way not to antagonize Moscow at this time.

Stane Dolanc, Tito's official substitute in party affairs, heads a strong party delegation to the congress. By selecting Dolanc, Tito responds in kind to General Secretary Brezhnev's dispatch of Andrey Kirilenko, Brezhnev's unofficial deputy, to the Yugoslav congress in May 1974. Two other full Presidium members and three lesser officials accompanied Dolanc to Moscow yesterday.

Notably absent from the delegation is Aleksandr Grlickov, party secretary for interparty relations. As the Yugoslav party's spokesman in helping to stalemate preparations for a European communist party conference, Grlickov may well be in disfavor with the Soviets. Several of his deputies are in Dolanc's delegation.

The Yugoslavs have also postponed the trial of four pro-Soviet subversives whose eventual conviction will probably revive speculations about Soviet meddling in Yugoslav affairs. The trial will resume in early March after the Soviet party congress.

25X1

National Intelligence Bulletin

February 23, 1976

PORTUGAL

The Sixth Provisional Government under Prime Minister Azevedo has taken a number of actions to restore order to Portugal's chaotic economy.

To avert a foreign-payments crisis, Lisbon has lined up substantial Western financial assistance and enacted measures to bolster the current account. At home, the government has made tentative moves to stimulate private economic activity and to inject life into the big nationalized sector. Azevedo is giving top priority to restoration of civil order and worker discipline. More permanent solutions to Portugal's deep-seated economic problems will have to await a return to political stability following parliamentary and presidential elections this spring.

Recent borrowing, progress in other loan negotiations, and new measures to improve the balance of payments indicate that substantial gold sales can be delayed at least until midyear. Foreign reserves fell roughly \$1 billion in 1975, to about \$1.4 billion at the end of the year.

Largely because of Portugal's swing toward political stability, Lisbon's quest for credits has scored several notable recent successes. The West German central bank has agreed to lend \$250 million against gold collateral for a period of six months to two years. Switzerland has loaned \$50 million on similar terms. Lisbon has borrowed \$85 million from the IMF oil facility, and negotiations for loans from the Bank of France and from the Bank for International Settlements have been reported. In addition, the US has extended or is actively considering various assistance measures that would total about \$100 million in the current US fiscal year.

In January, a team from the European Investment Bank tentatively accepted proposals from Lisbon for a dozen projects to be financed by the \$175 million in concessionary loans the EC authorized for Portugal last year. Disbursements could begin before the end of April. In addition, the Community agreed in principle to expand Portugal's regular borrowing rights by nearly \$60 million and is studying several possible food aid arrangements. Negotiations are now in progress to expand the preferential treatment of Portuguese exports to the EC and broaden Portuguese access to EC technology.

Lisbon has obtained little help from the communist world, notwithstanding numerous official visits and cultural exchanges, an increase in trade, and a variety of new accords.

The Azevedo government has enacted wide-ranging measures aimed at improving the balance of payments:

National Intelligence Bulletin

February 23, 1976

--To cut imports, it has boosted gasoline prices to the highest levels in Western Europe and extended temporary surcharges on non-oil imports through the first quarter.

--To promote foreign sales, it has offered exporters insurance against exchange rate fluctuations and production cost increases.

--To revive emigrants' remittances, it has authorized banks to set up special foreign exchange accounts.

--To raise tourist receipts, it has set up an Institute for Tourism Development.

--To attract foreign capital, it has enacted a code of rules for foreign investment.

The government has imposed tax and wage measures to discourage consumption so that imports can be reduced and resources freed for export or domestic investment. Wage rates have been frozen through this month, but with elections coming up the governing parties will agree to extend this unpopular measure only with great reluctance. An attempt to suspend food subsidies and free prices already has been aborted because of adverse popular reaction encouraged by leftist parties.

Azevedo has budgeted more than \$1 billion—a 90-percent increase over 1975—for public works, housing, and other investments. After months of neglect, the government has moved to organize the direction of nationalized industrial and financial enterprises and reportedly is planning to return to private owners some 300 small and medium-size businesses that were taken over by their employees. A few prominent industrialists and financiers already have returned.

Azevedo's initiatives will not cure Portuguese economic problems. Western financial assistance should, however, permit the country to avoid a major devaluation, large gold sales, or a domestic economic crisis in the next few months.

Restoration of labor discipline and civil calm appears to be the key to success at this time. Thus, Lisbon may be justified in putting off a sharp devaluation that would help the payments situation because it could be a heavy price to pay in terms of worker discipline and the popularity of non-communist governing parties.

To stabilize the agricultural situation, the government has promised not to expropriate land north of the Tagus River in central Portugal or farms under 75 acres elsewhere. Most land in Portugal remains in private hands, with nearly 40 percent of the total acreage divided into units of 50 acres or less.

National Intelligence Bulletin

February 23, 1976

The encouragement so far offered to private businessmen and foreign investors, however, may have little impact. Government guarantees and incentives are undermined by the inadequacies in the foreign investment code and the uncertain links between the public and private sectors.

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